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ABSTRACT

These teacher developed case studies taken from the business world are presented to help secondary students develop an understanding of economics and of the decision-making process. The studies describe real business situations. All historical and current facts are provided, and students must analyze the data and make business decisions. Teacher directions are provided for each of the five cases. In the first case study, "Dental Health Insurance: Is It Worth the Bite?," students analyze the coverage and costs of a dental health insurance package. They must then decide if, as an officer of their student association, they would recommend this plan to the association membership. The second case study deals with the stealing of electricity from the utility company Northeastern Electric. Students discuss whether theft is a crime when done to a large public company. The third case study is entitled "Howard Johnson's Hustles On." Students are asked to place themselves in the President's chair of this restaurant chain and decide whether or not to build a disco-type cocktail lounge to attract young adults to an already successful Howard Johnson's in Braintree, Massachusetts. In the fourth case study, students play the role of a large chain hotel executive. They must decide whether to convert a manual reservation system to a computerized reservation system in the chain's hotel located at the site of the 1980 Olympics. Banking services and marketing communication problems are analyzed in the last case study. A discussion of how to use case studies to teach economics is also included in the publication. (Author/RM)

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1978 DECISION-MAKING CASEBOOK FOR BUSINESS AND ECONOMICS

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These cases were developed as an integral part of the 1978 Summer Social Studies Workshop -- THE ROLE OF BUSINESS IN CONTEMPORARY AMERICAN LIFE -- offered by Northeastern University's Colleges of Business Administration and Education and sponsored by the Boston Chapter of the Financial Executives Institute.

We wish to thank the members of FEI, not only for their financial support of this important venture in cooperative business education, but for their personal commitment to a more positive relationship between business and the society it serves.

In particular, the members of the FEI Committee on Government and Business Relations arranged for the companies used as case subjects by teachers. Without this relationship, these materials, which are meant for classroom use by young people, would not have been developed. Thanks also to the specific companies for their openness and concern for the success of this project.

Unless otherwise indicated, all company names and situations are real. These cases should be regarded as illustrations for classroom discussions rather than as solutions to specific problems.

The Editors.

INTRODUCTION

Since 1961, the Business History and Economic Life Program has been training teachers and developing case materials to augment and strengthen economic offerings currently available to teachers. Business touches all our lives. The history and anecdotes surrounding business provide a colorful approach to the reasons for learning economics in the first place. They can be adapted to arouse and sustain interest in the many facets of economic and business life--both public and private.

This collection of cases has been prepared by classroom teachers with secondary students in mind. Such a product is a reflection of the talent, experience, and sensitivity that exists among the practitioners as well as the tremendous help and support of businessmen interested in the same problems. As one uses the cases, it should be noted that the intent is to develop economic understanding rather than the detailed perspective of a business decision-maker.

Real economic situations, within the context of a regular secondary school social studies curriculum, can lay the groundwork for a realistic understanding of economic problems, for both the terminal student, the not so interested, and for those who will later advance to more advanced analytical courses.

Business cases are particularly effective for introducing economics in the classroom because they center on real people in real specific situations. They provide abundant material for analysing and understanding micro economic relationships--e.g., business organization, competitive mechanisms, economic motivation and the like.

In addition, the information in a case extends beyond the single firm, enabling the teacher to move into a number of areas. Furthermore, by providing concrete examples of business reacting to changing economic conditions, the cases are able to give far more meaning to the student than abstract entities.

The cases in this third casebook are meant to provoke discussion amongst young people in order that they may begin to investigate what goes into the making of a decision. For more detailed information on how to utilize cases, case method, and the making of one's own cases, please consult Paul H. Tedesco, Teaching With Case Studies (Revised Edition. The Federal Reserve Bank of Boston, 1979. Free). This revised edition includes an extensive case and case method bibliography.

The editor has also included an article written for the Canadian Foundation for Economic Education, "Using Case Studies to Teach Economics," which might be helpful to the teacher beginning to use cases and case method as well as furnish some ideas for those who wish to create their own cases.

USING CASE STUDIES TO TEACH ECONOMICS

Editor's Note

Our main "feature article" in this issue of RAPPORT has been contributed by Dr. Paul Tedesco, a leading exponent of the case-study approach in economic education in the United States.

Dr. Tedesco took part in one of our summer courses last year — in Halifax — and his comments, besides introducing this method to many who may not be familiar with it, refer also to the perceptions he gained from working with teachers on that course. A more detailed treatment of the subject can be found in Dr. Tedesco's handbook: Teaching with Case Studies, produced in cooperation with the Federal Reserve Bank of Boston.

It should in fairness be pointed out that while the case-study technique has been making strong inroads in the teaching of economics and business studies, its application should be treated with some caution. Much depends upon the teacher's skilful control of class discussion and on the teacher's own clear grasp of the economic principles and concepts which will emerge. Some other reservations were expressed at last summer's "University of Waterloo Seminar on Teaching Economics" by Dr. David Whitehead, a specialist in U.K. economic education at the University of London Institute of Education.

> *"They (case studies) can easily become anecdotal rather than analytic. A more pressing difficulty is that they work the wrong way round, for they may seduce pupils into moving from a particular case to a general law, though the case may not in fact be a typical example. Economics proceeds in the opposite direction; it is the careful application of general principles to particular problems.*
>
> *"There has not yet been any evaluation of the efficacy of case studies as a teaching aid, in terms of improved learning by pupils. They can certainly work, however, as a motivating device."*

Dr. Tedesco's enthusiasm for the case-study approach comes through clearly in his article and it is hoped that his remarks, together with the actual case study enclosed with this issue of RAPPORT, will provide a better understanding of what is involved and what can be attempted.

★ ★ ★

Last summer I was fortunate to be involved in an economics education program sponsored by the Canadian Foundation for Economic Education in Halifax, Nova Scotia.

My work with the high school teachers and faculty of the Dalhousie University-Saint Mary's University Project Group on teaching economics in the high schools has simply strengthened my belief that 1) effective economic education will only be successfully delivered to our young people when it is part of another discipline (preferably history) and 2) the effectiveness of economic education courses and programs will be determined by the instructor's ability to develop and use proven and more proficient teaching techniques. The case study method is one such technique.

A word of caution, however, before continuing. If the teacher does not feel comfortable in the case method environment, then there is no sense in trying to use materials developed for the "open case" (inquiry) classroom.

Since 1961, the Business History and Economic Life Program (formerly the Harvard-Newton Project in Business History and Economic Concepts), of which I am coordinator, has been training teachers and developing case materials to augment and strengthen economic offerings currently available in the secondary schools. Business touches all our lives. The history and anecdotes surrounding it provide a colourful approach to the reasons for learning economics in the first place. They can be adapted to arouse and sustain interest in the many facets of economic business life — both public and private.

Real economic situations, within the context of a regular secondary school social studies curriculum, can lay the groundwork for a realistic understanding of economic problems, for both the finishing students and for those who will later take more advanced analysis courses.

Business cases are particularly effective for introducing economics in the classroom because they centre on real people in specific situations. They provide abundant material for analysing and understanding microeconomic relationships — e.g. business organization, competitive mechanisms, economic motivation and the like.

In addition, the information in the case histories extends beyond the single firm, enabling the teacher, within the scope of a course, to move on to a discussion of resource allocation through the economy. The criteria of social welfare and the extent to which these are met by private enterprise market mechanisms, government regulations and public services can also be encompassed. Furthermore, by providing concrete examples of business reacting to changing economic conditions, the cases give the study of "aggregate" economics — e.g. problems of growth, full employment and business cycles — far more meaning than abstract entities or labels from mysterious graphs.

As a flexible resource, cases can be employed to clarify both history and economics on many levels of sophistication. But, most important, the case builds economic understanding upon a broad historical perspective, giving ultimate direction and value to the process.

The cases developed at Halifax demonstrate the validity of the above comments in that those examples which utilized specific situations (Fundy Gypsum and Starr Skate Manufacturing) elicited a greater degree of understanding and comprehension than the fictional ones.

The use of historical context allows for a greater degree of objectivity in the case. A case study is essentially a limited slice of a situation. It does not give — or direct — answers through pointed generalizations or summaries. But it encourages the student to assess the evidence for himself; to extract the economic principle from the story.

RAPPORT, No. 5 (Winter 1976) Canadian Foundation for Economic Education.

Case studies are supplements to a variety of secondary school courses, and so specific learning goals are subject to flexibility and variation in courses, curricula and teachers.

Spectator Interpretation

Most of hte original cases developed by BHelp (Business, History and Economic Life Program, Inc.) have been what we call the "interested spectator type", where the student is invited to interpret a case as he sees it. This technique has been effective because it encourages the reticent student to articulate his ideas.

At the same time, the more aggressive student may better appreciate the different ways of interpreting historical episodes; he may learn to look at the different angles. These psychological results comprise one of the main reasons that the learning goals are flexible.

The Decision

There are other, more recently-developed, case forms which are less elaborate ,but just as effective. One is the decision-type case — WHAT DECISION WOULD YOU REACH IF THE DECISION WERE YOURS TO MAKE?

Other Case Forms

There is the technical analysis type case — where no decision is called for; the legal case — where the court speaks with authority; the take-off case — where the focus of discussion is on the attitudes and opinions of the participants, not on the facts.

For the moment, the over-riding focus is on realism and rationality.

Our experience in the field shows that carefully written and documented cases are increasingly popular among teachers in many disciplines — and for good reason.

For the teacher with little or minimal economic training, the cases can provide a workable response to the pressure "to teach economics" to our young economically illiterate citizens.

For the student, the case approach develops his interest and involvement by providing him with details in a specific situation and by presenting him with the task of forming his own conclusions; of extracting a theory. It provides an opportunity to teach the logic of rational judgment and decision.

Students learn a) to sift and evaluate specific factual information; b) to relate these facts to alternative situations and to become familiar wih the tools of conceptual analysis; c) to move cautiously toward value judgments while recognizing the need for careful analysis of conflicting legal and ethical values in light of the facts, the conceptual generalizations and the alternatives.

It encourages retention of a specialized vocabulary and different concepts by emphasizing inductive learning through studying and discussing specific situations.

Teachers most often utilize others' cases. It is, however, the classroom teacher who is in the best position to *develop* cases — especially decision type cases — for his own students. HE DOES THIS BY SIMPLY DOING IT. "Anyone who can tell a story can write a case." And the teacher can fit and tailor the case to the interests of his own students, as well as having the pleasure of teaching and using something he has designed and created. FOR THIS REASON ALONE, IT IS WORTH A TRY.

But while teaching the case, the teacher should keep in mind that this is quite different from the traditional lecture method. Class discussion must be free to follow the students' train of thought and development of ideas, but conversely, it must also be led. The teacher must not only be attuned to the thinking of the individual student, but must be able to develop and maintain the balance between the *freedom* which generates learning and creative thinking and the *control* which establishes the priorities for discussion.

Case studies may be used in a variety of courses, both to broaden the horizon and to emphasize a specific point. Some fit into a specific historical context; others transcend eras. While a precise economic concept can be emphasized in an individual case, a number of concepts are usually appropriate to any case.

Teachers may focus on different goals and ideas, depending on the structure of their course and the sophistication of their students. Cases are most valuable when discussed in relation to the total context of a course, since they are not meant to displace anything, but to supplement theory and concept.

One or many cases may be studied over the span of a course. They provide a reality orientation for other subjects and help the teacher to get across the interdisciplinary and historical connections, since students in any class vary in ability and background of experience.

Even the slowest student can contribute to the discussion on the level of factual analysis and should be encouraged to do so. The brightest and most experienced student will probably be the most adept at participation at the value judgment level and the student who phases out of the discussion as the complexity deepens will continue as an observer if the ideas are lively and if the teacher encourages clear, careful statements.

In my own experience, the success of our *The Racer's Edge: Andy Granatelli and the STP Corporation* is because the case combines the history of an auto company (Studebaker, which had its Canadian adventure in the Avanti), the concept of advertising and economic gain, and the entrepreneurial figure of Andy Granatelli. The most recognized logo in North America is the STP oval — so why not capitalize on such a fact with youngsters? Any number of equally public situations could be so utilized with students to a great effect — i.e. the effect of American TV commercials upon the Canadian economy.

In the final analysis, the case study method is aimed at giving strength to the overall purpose of education, THE DEVELOPMENT OF A FUNCTIONING HUMAN BEING. Through the experience of analysing for themselves some of the economic, political, social, and even psychological relationships which underlie their history, students can be helped to develop the analytical skills, the conceptual knowledge, and the historical perspective necessary to deal effectively with the complex relationships of the present and of the future, particularly in the areas of business and economics.

PAUL H. TEDESCO

Enclosed with this issue of RAPPORT is a case study prepared by one of the teachers on the Halifax course last summer. We appreciate Mr. Angus' work.

DENTAL HEALTH INSURANCE: IS IT WORTH THE BITE?

PREPAID DENTAL CARE PROGRAM BY DENTAL SERVICE OF MASSACHUSETTS

Dental care is a necessary part of good health. However, it is the largest single unmet health need in America today. More than 90 percent of Americans suffer from dental disease, but less than half visit a dentist during the course of a year.

Professionally designed group dental plans encourage the use of dentists' services and can result in good oral health and improved personal appearance. The groing interest in group dental insurance has produced the plans which are now being offered by Dental Service Corporation of Massachusetts and administered by the Massachusetts Blue Cross. Whether the group is a company, union, or student association, this new fringe benefit is always favorably received and valued. Growing acceptance of dental insurance has been dramatic. For example, in 1960 there were fewer than 60 private dental group programs in operation, covering slightly more than 700,000 people. Today, more than 30 million Americans have this protection. Projections indicate that by 1980 about 100 million Americans will be covered by prepaid dental care programs.

Organization

Dental Service of Massachusetts is chartered under state law establishing its formation as a professionally sponsored non-profit corporation. The Massachusetts Dental Society initially sponsored the Dental Service of Massachusetts by introducing the enabling legislation, organizing the corporation, and providing funds for initial expenses and reserves.

Dental Service has contracted with the largest and most experienced agency of its kind in the state, Blue Cross, for enrollment, claims processing, and other necessary administrative services.

This case was prepared by William Campbell, Foxboro (Massachusetts) High School, and C. Weston Meiggs and Robert Resnick, both of Whitman-Hanson (Massachusetts) Regional High School, under the supervision of the 1978 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a particular situation.

Corporate Structure

There are nineteen corporate members. One more than half of their membership must be registered dentists approved by the Massachusetts Dental Society. Major responsibilities of the group are to elect the Board of Directors annually and to advise the Board in the transaction of any corporate business.

Board of Directors

There are eleven members on the Board of Directors. The business affairs and property of the Corporation are managed by the Board of Directors. The corporate by-laws stipulate that at least one-third of the Board shall be dentists formally approved by the Massachusetts Dental Society. The Board of Directors elects the officers of the Corporation.

HEALTH INSURANCE PLANS: THE CHOICE IS YOURS

The Dental Service programs listed cover most of the services needed for good dental health. Depending on choice, these plans can provide payment for all (or part of) participating dentists' standard fees. These plans, outlined below, are available to a student association. The costs will be based on the numbers who enroll as shown in Table II.

The benefits offered by these plans are not subject to waiting periods and assure the highest quality dental care at the most economical cost.

DECISION POINT...

As an officer of your student association, you have been assigned the responsibility of reviewing the plans outlined in Table I, and make a recommendation to the association membership. Would you recommend any of these plans? What would be the basis for your recommendation?

TABLE I: Coverage and Costs

Services	Level 1	Level 2	Level 3
1. Diagnostic: initial examination, charting, x-rays, and semi-annual check-up	X	X	X
2. Preventive: includes semi-annual cleaning and flouride treatment for children under 19	X	X	X
3. Restorative: fillings, crowns, jackets	L	X	X
4. Oral Surgery: extraction	S	X	X
5. Endodontic: root canals and caps	F	X	X
6. Peridontic: gum disease	...	X	X
7. Prosthodontic: dentures and bridges	...	X	X
8. Orthodontics: straightening teeth	...	...	X

Code: X = covered
L = except gold crowns and jackets
S = except cutting gums, bone removal, and pre- and post-operative care
F = front teeth only
D = repair of broken denture only

TABLE II: Costs - Monthly Premium Rates (Individual - 1978)

Group Size	Level 1	Level 2	Level 3
1 - 499	$4.00	8.45	14.00
500 - 1,000	3.90	8.25	13.70

TABLE III

CASE DECISION-MAKING MATRIX.....

NUMBER	VARIABLES	Family Income	Family Size	Family Dental History	Age of Children	Family Benefit Restrictions	Alternative Recommendations	Financing	Cost of Insurance	Legal Requirements						STATUS
1	Level I															
2	Level II															
3	Level III															
4	*DMO Care															
5	Alternate Dental Plan															
6	No Coverage At All															
7																
8																
																DECISION

ALTERNATIVES
DENTAL INSURANCE PLANS

*DMO = Dental Maintenance Organization

TEACHER'S NOTE

I. Overview

The Dental Corporation was initially sponsored by the Massachusetts Dental Society through its introduction of enabling legislation, Chapter 176E, enacted in July, 1962.

The Dental Society voted to provide $30,000 for the Corporation's starting expenses and reserves in January, 1966.

Dental Service of Massachusetts signed an administrative agreement in March, 1969 with Blue Cross of Massachusetts to provide enrollment, claims, processing, and other operation services of the Corporation.

The State Insurance Commissioner approved the Corporation's plans, benefits, rates, methods of reimbursing dentists, and the Participating Dentist's Agreement in March, 1969.

The Corporation invited all licensed Massachusetts dentists to participate and by October, 1969, almost 1,000 dentists were enrolled. Today, there are more than 2,850 participating dentists.

Participating dentists support Dental Service of Massachusetts by agreeing to accept Dental Service payments, at a 5% discount, as payment in full for specified services. They also agree to provide underwriting support to Dental Service if this becomes necessary.

II. Case Goals

Cognitive Objectives

To define the following concepts and principles: health insurance, premium, corporation, charter, enabling legislation, economy of scale, alternative costs, non-profit, prepaid, fringe benefit, health maintenance organization.

To employ these concepts and principals in comparing, selecting, and deciding on dental insurance plans and dental health maintenance organizations.

To develop techniques for analyzing cases including the classification of all of the necessary information and the comparison and examination of this information via a matrix of alternatives and criteria.

Value Judgments

To differentiate between values that would tend to support different methods of meeting dental needs.

III. Preparation Prior to Districution of the Case to Students

A. Teacher Preparation
Read teacher notes
Prepare overhead transparancies

B. Stuaent Preparation
Before reading case, investigate own family's yearly/monthly dental costs.
If family has dental insurance, ask why this insurance was purchased.

IV. Suggestions for Case Usage

A. Curriculum Areas
Home Economics
Consumer Economics
U.S. History - collective bargaining, constitutional issues, inflation
Economics - insurance, problem of shared risk, economy of scale
Distributive Education - marketing problems
Accounting - retention rate, economy of scale

B. Questions for Discussion

1. After the homework assignment-
What does your family spend on dental care?
What are the reasons why your family carries dental (medical) insurance?
What are some factors to be considered before making a decision to subscribe to one of the alternative levels or programs? (Use matrix and table)

2. In small classroom group discussions-
How would you prioritize the variables shown on the decision making matrix?
Which of the available alternative plans would you choose? Why?

3. After a classroom simulation-
Why do you think it has been difficult for Dental Service to market their plan during a period of rapidly rising medical costs?
Why might majority of the incorporators of Dental Service of Massachusetts be dentists?
Would the health maintenance organizations model be more or less attractive to the consumer in terms of dental care as opposed to medical care?
Why do you think that the costs of the program decrease as membership in the program increases?

C. Suggested Activities for Students

Interview friends and relatives about types of medical/dental insurance. Do they have insurance? Why might they have purchased this insurance?
Contact family dentist to find out about rates and why he/she may or may not participate in Dental Services.
Contact local insurance agents to determine the availability of alternative dental or medical insurance plans.
Investigate the Harvard Medical Plan or similar health maintenance organizations.

Engage in a simulation/role play. The class may act as a student government and decide what, if any, of these plans they would recommend to the student body.

or

Class members may play the roles of a company representative, a union representative, a Dental Service representative and present their position on dental insurance as a fringe benefit. Discuss how tax brackets become important considerations(cost before, compared to cost after taxes.)

Resources:

Dental Service offices booklet, Group Prepaid Dental Care - The New Fringe Benefit

Blue Cross package "Health Thyself"

Dental Service of Mass. Financial Plan

Dental Service of Mass. Sheets # Eah. B+S, 10, 12

Fry Readability Graph

Parg I	4 sent	152 syl.
Parg II	5 sent	138 syl.
Parg III	6 sent	147 syl.
total	5 sent	145 syl.

average 9.9 reading level

DIVERSION: SOME CALL IT THEFT

Historically, most cities during the *industrial development* of New England were located on or near their *power sources*. This usually meant (near) fast running water, such as a river where water wheels could be used to run mills and other industries. Power *generated* in this way is called *mechanical energy*. Later, the use of *steam generators* allowed plants to move away from these sources of power.

By the 1860's, gas came into use as a lighting source in New England. Companies called *utilities* were formed to bring this fuel to industry, stores, and homes. Until this time, kerosene and whale oil were the major sources of home lighting. Within ten years, gas completely replaced these fuels as a lighting source. However, wood and coal were still the major sources of energy for cooking and heating in New England.

In 1889, Thomas Edison invented a practical light bulb and electricity quickly replaced gas as a lighting source. Electric utility companies were then formed to generate *electricity* and to *transmit* this energy from its source through company-owned lines to homes and businesses. Unlike gas, which can be used in its *natural state* as an energy source, electricity had to be *manufactured* before being distributed and used.

The steam generators of the late 1800's were fueled by coal. The type of electricity produced was called *direct current* or D.C. One characteristic of direct current is that it cannot be transmitted over long distances. Therefore, early generating plants had to be located near their *customers*. The discovery of a new kind of current,

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This case was prepared by Michael Krasnow, Cambridge (Massachusetts) Public Schools; Kent Norton, Holiday, Florida; and Arthur Sylvester, Mohawk Regional School District, Shelburne, Massachusetts, under the supervision of the 1978 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a particular situation. Although a real situation, names have been disguised.

known as *alternating current* or A.C., removed this restriction. Alternating current can be transmitted over long distances with little power loss. This is the type of current in use in American homes and businesses today.

The electric companies, in the early years of the industry, were small and *independent*. Each handled its own *generation* and *transmission* of electricity. As population increased in New England, demand for electricity increased. With the need for *economy* and *reliability of service*, electric companies began to tie into mutual *power systems*. In order to avoid *waste* and *duplication* of power lines, services, etc., each system was given a *publically regulated monopoly* over a part of New England.

One of the systems founded in the early 1900's was Commonwealth Utilities Inc. Today, C.U.I. is a *holding company* for several electric utilities in New England. One of these, the Northeastern Electric Company (N.E.C.) is a *public utility* doing business within the Commonwealth of Massachusetts. The company is a *subsidiary* of C.U.I.; four of N.E.C.'s directors sit on the *board of directors* or are *officers* of C.U.I., the parent company.

Like N.E.C., Commonwealth Power Company is also a subsidiary of C.U.I. (see Figure I). Approximately 735,000 customers located in 145 cities and towns are served by Northeastern Electric Company. The electricity sold by N.E.C. is primarily furnished by Commonwealth Power Company (C.P.C.), which owns and operates power generating plants. C.P.C.'s generating plants are of three types: *hydro* (water), *fossil fuel* (coal or oil), and *nuclear*.

The following is a breakdown of the numbers and types of customers and revenues in 1977:

Customers:	1.	Residential	666,180	
	2.	Commercial		
	3.	Industrial	68,820	Total: 735,000
Revenue (in thousands)	1.	Residential	$227,160	
	2.	Commercial	163,391	
	3.	Industrial	117,441	
	4.	Other	15,163	Total: $523,155

N.E.C., like other utilities around the nation, faces many problems. Among these is *public relations*. Many people believe that

utilities will do anything to increase profits. This is especially true when the utilities ask for a rate hike and rates have been steadily rising over the past few years. Northeastern Electric explains these increases as part of rising costs of operation. There are also many opposition groups to nuclear power in New England that attempt to cast the company in a negative light.

Moreover, a new problem has arisen which is causing a substantial loss of income for Northeastern Electric. This is the rapidly rising level of *electricity diversion*, or, simply put, the stealing of electricity. Recently N.E.C. brought this problem to the C.U.I. board of directors. That board appointed a committee to study diversion and report back. The chairman of the board has asked that the report be presented to the full board. Investigator Joseph Aceto will present the case.

- * -

Joseph Aceto: (JA) Gentlemen (there are no women on the board), these are the facts. As the chart (Figure II) I've just handed out shows, the net income of our subsidiary, N.E.C., in 1977 was almost 14 million dollars. After careful investigation, I've found that during that year, N.E.C.'s loss of income due to electricity diversion amounted to about $1,400,000 or close to 10 percent of net income. The loss may be even higher since this is only the amount we've been able to detect. Obviously, this is a serious problem. In order to protect our stockholders investment, we must take immediate action on this problem.

James Murphy, Director: Have you caught any customers diverting electricity? What kind of people are stealing from us?

JA: We have found that most of the electricity has been stolen by our commercial or industrial users. However, residential customers have also been caught. Here are some examples:

Jack Cutter owns several apartment buildings. Between 1976-1977 as our rates increased, Mr. Cutter's electricity bills for his apartments decreased by 40 percent or $155,000 over the two year period. Our meter reader found that the electric meter had been rewired so that it would show 40 percent less use of electricity than was actually used. We replaced the meter and told Mr. Cutter that we were going to take him to court for the $155,000 that he owed us. Two weeks later another meter reader discovered that the new meter had been tampered with.

We confronted Mr. Cutter. He said that he would continue this practice until we lowered our rates. He said that he considered his action "civil disobedience," and that we were "ripping off" our customers. No matter how we protected our meter, we could not stop Mr. Cutter from developing new methods to make it run slow.

Arthur Johnson, Director: Why didn't we just shut-off his juice?

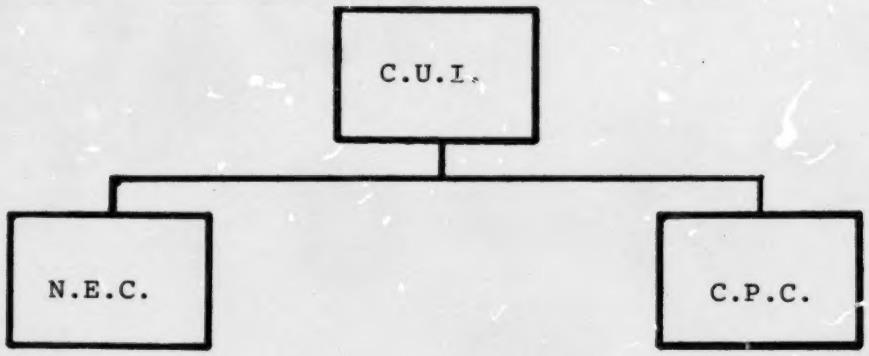
JA: The law states that we can only stop service if he doesn't pay his bills. We cannot stop service if he doesn't pay for what we accuse him of stealing. This means we have to collect through court action. We must prove intent in a criminal case. We finally got him to court and he was sentenced to 24 months in jail. He ended up serving only one month and we received no compensation for his theft of electricity.

Another example concerns a retired school teacher, Mrs. Dentin, living on a fixed income of $4,500 per year. She is 68 years old. She has told our investigators that she has trouble paying for her food, let alone her other bills. She fears what she calls a "new wave of young hoodlums" in her neighborhood. For this reason, she leaves at least two lights on day and night. A call from a neighbor led to an investigation of her recent electric bills in our computer. The neighbor felt that Mrs. Dentin was stealing electricity from us. We found that over the past four months, during peak usage periods, her bills were 30 percent lower than her earlier bills. A representative was sent out and found that her meter was adjusted to produce lower readings. She told our representative that the neighbors have tampered with her meter to force her out of the neighborhood, hoping she will sell her home to a younger family. The case is still undecided.

We have evidence to believe that Mr. Casper Acey, owner of the Grain and Feed Store in Midland has been diverting electricity for about two years. His technique was learned by reading a popular book which advised people to steal everything from plane rides to electricity. After he used the method on his own meter, he decided to sell his services to others at $20.00 a job. He could rewire a meter so that the average user would save at least that amount ($20.00) every month. One of our customers who has employed his "rewiring services" was caught by our investigator and told us of Mr. Acey's "side business." We have brought him to court. He denies the allegations, but reports are he still is selling his service. The case is still unsettled.

Chairman: Well, gentlemen, what can we do about this problem? How can we protect our investors and enhance our public image?

FIGURE I: Organizational Chart, Commonwealth Utilities Inc.



Key: C.U.I. Commonwealth Utilities Inc.
N.E.C. Northeastern Electric Company
C.P.C. Commonwealth Power Company

TABLE I: Income Statement, Northeastern Electric Company (1977) as compared to Commonwealth Utilities Inc.

	N.E.C.	C.U.I.
Operating Revenues	$523,155,000	$775,455,000
Total Operating Costs	493,932,000	666,940,000
Operating Income	30,534,000	120,559,000
Total Interest Paid	13,082,000	51,710,000
Income After Interest	17,452,000	68,849,000
Dividends Paid	3,581,000	13,486,000
Net Income	13,871,000	55,363,000

TABLE II: Northeastern Electric Company, Summary of Operations (1974-77) (in thousands)

	1977	1976	1975	1974
1. Operating Revenue	$523,155	$468,828	$434,183	$391,626
2. Operating Expenses (excuding Federal income taxes)	480,278	432,121	387,523	352,139
3. Federal Taxes	13,591	12,028	15,158	10,522
4. Operating Income	29,286	24,679	31,499	28,965
5. Other Income	1,248	898	450	322
6. Combined Operating and Other Income	30,534	25,577	31,949	29,287
7. Interest Charges	13,082	13,369	12,399	11,799
8. Net Income	17,452	12,208	19,550	17,488

Teacher's Notes

Title: Diversion! Some Call It Theft: Electric Power Thievery in New England

I. Since the Arab oil embargo in 1973, the United States has been under pressure to reduce oil use and conserve energy. With the oil shortage, supplies have been reduced and prices increased twice the pre-embargo levels. Utility bills have also been on the rise in the public and industrial sectors; individual businesses have equally felt the crunch. The rise in fuel costs have prompted utilities, such as N.E.C. to raise rates and at the same time some consumers have reacted by diverting or stealing electricity from the company. Public image of utility companies has lowered with the increasing costs of energy, people are beginning to feel that the large companies are stealing money from them in the form of higher utility bills. This study includes a few cases that illustrate this specific problem. The student will be encouraged to discuss, investigate and analyze solutions to these representative cases.

II. CASE GOALS

A. Cognitive

1. To define, list, and discuss all terms that are underlined in the reading.
2. To demonstrate how these technical terms and the concepts they represent have evolved from the 19th Century to the present.
3. To identify types of relationships between a utility company and its customers such as economic, ethical-moral, and political.
4. To identify factors influencing the future cost of electricity.
5. To be able to infer relationships between rate of utility growth and profits.
6. To produce a chart that contrasts power costs with cost of fuel.

B. Affective

1. To identify how policies of utility companies are influenced by a personal style of living.
2. To explain the influence of electricity diversion on the consumer.
3. To discuss the meaning of theft in relation to the students' own lives.
4. To organize and compare different methods of dealing with each case.
5. To evaluate the credibility of information in relation to the source.

III. PREPARATION PRIOR TO DISTRIBUTION OF CASE TO STUDENTS

B. Student Preparation
(Before reading)

1a. The student should be able to identify the meaning of the underlined vocabulary.

1b. The student should have a rudimentary ability to identify the basic tenets of capitalism.

2. (Before Class Discussion) Students should demonstrate their knowledge of the special place of a public utility within the capitalist system.

IV. CASE PRESENTATION

1. What are two types of economic systems in operation in the world today?
2. Which of the above includes the use of private property?
3. Is theft a crime when done to a large public company?
4. Who should regulate public utilities?
5. Are ethics a responsibility of a corporation?

Activities

1. Field trips - the students could take a guided tour through a power station and see how electricity is generated.
2. An electrician or meter reader could be brought to class and explain how a meter works. The students can ask questions about electricity and power generation and transmission.

V. Resources

Any of the following curriculum materials can be obtained by writing:

U.S. Department of Energy
Technical Information Center
Box 62
Oak Ridge, TN 37830

List of materials pp. 11-13

Curriculum Materials

Award Winning Energy Education Activities for Elementary and High School Teachers. 1977. 38 pages. Contains brief descriptions of prize-winning entries in the National Science Teachers Association (NSTA) Teacher Participation Contest conducted in 1976. The contest sought ideas that would fit easily into standard (science and nonscience) courses of study at various grade levels to further student understanding of important energy issues.

Community Workers and the Energy They Use (Grade 2). 1977. 80 pages. In units such as "What Is Energy?", students explore the energy forms of light heat, and motion. In "Community Workers Who Work Directly with the Sources of Energy," students look at the farmer, grocer, oil man, gasoline station attendant, and others.

Energy Activities with Energy Ant (Grades 1-4). 1975. 32 pages. This illustrated account of how energy is produced and used contains pages for coloring, cutouts, and energy games. (A Spanish language edition is also available.)

Energy Conservation in the Home: An Energy Education/Conservation Curriculum Guide for Home Economics Teachers. 1977. 335 pages. This resource book will help home economics students conserve energy in their homes and lives.

Energy, Engines and the Industrial Revolution (Grades 8 and 9). 1977. 82 pages. Study units include "The Giant Step of the Industrial Revolution",

a student reader covering the years 1700-1860 with focus on energy; and "The Great Joule Robbery" in which the contribution of the heat engine (gasoline and diesel engines and steam turbines) to the Industrial Revolution is described.

Energy History of the United States (Grades 8 and 9). 1978. 117 pages. Charts the growth of American energy use and traces the history of the major sources of energy (coal, wood, and oil) in the United States. Field Test Draft.

The Energy We Use (Grade 1). 1977. 41 pages. Study units include "Energy in Wind", which involves a pinwheel parade to show the energy of the wind; and "The Sun", in which students watch two plants to see how the sun gives them energy.

How a Bill Becomes a Law To Conserve Energy (Grades 9, 11, and 12). 1977. 118 pages, Study units include "Case Study of a Bill", which describes how the 55 mph national speed limit became a law and takes the student through the lawmaking process; and "A Congressional Hearing" in which students play typical roles at a hearing on a national speed limit bill in a simulation game. (See also U.S. Energy Policy-Which Direction?)

Mathematics in Energy (Grades 8 and 9). 1978. 64 pages. This packet is designed to infuse energy concepts into junior high math classes. The unit deals with a wide range of energy math including conversions, statistics, and the manipulation of energy units (Btus, watts, calories, etc.). Field Test Draft.

My Energy Book by Energy Ant (Grades 4-6). 1976. 32 pages. Colorful book on the sources of energy and ways to conserve it.

Organizing School Energy Contests. 1975. 10 pages. Outlines procedures for conducting school and community energy projects from the planning stage to issuing publicity and presenting awards for winning entries.

Transportation and the City (Grades 8 and 9). 1977. 46 pages. Study units include "Shut Down by Tin Lizzie", a student reading exercise showing how small American towns declined as a result of the automobile; and "The City of Windshields", which describes Los Angeles, the city that the automobile built.

U.S. Energy Policy-Which Direction? (Grades 11 and 12). 1978. 90 pages. This unit, which is a companion to How a Bill Becomes a Law to Conserve Energy, concentrates on the Executive Branch of the Government and the various forces that go into making energy policy. Field Test Draft.

FACT SHEETS on ALTERNATIVE ENERGY SOURCES

Each of the following fact sheets was written in 1977 and is 4-8 pages long.

Alternative Energy Sources: A Bibliography
Alternative Energy Sources: Environmental Impacts
Alternative Energy Sources: A Glossary of Terms
Breeder Reactors
Conventional Reactors
Electricity from the Sun I (Solar Photovoltaic Energy)
Electricity from the Sun II (Solar Thermal Energy Conversion)
Energy Conservation: Homes and Buildings
Energy Conservation: Industry
Energy Conservation: Transportation
Energy Storage Technology
Fuels from Plants (Bioconversion)
Fuels from Wastes (Bioconversion)
Geothermal Energy
New Fuels from Coal
Nuclear Fusion
Solar Heating and Cooling
Solar Sea Power (Ocean Thermal Energy Conversion)
Wind Power

HOWARD JOHNSON'S HUSTLES ON

The Howard Johnson Company began modestly in 1925 in Wollaston, Massachusetts, when Howard Deering Johnson took over the business obligations of his deceased father. He was already operating a patent medicine store that was losing money. Within three years, Mr. Johnson had paid off his debts and had a successful business--the result of hard work, ingenuity, and perseverance. Local customers began to associate tasty ice cream (made from wholly natural ingredients and double the normal butterfat content) with Howard Johnson's. In time, most of the United States would do the same when Mr. Johnson began franchising.

Today, the Howard Johnson Company consists of more than just the "Orange Roof" restaurants which have become a national landmark for travellers. In 1954, the company opened its first motor lodge in Savannah, Georgia. In addition, the Howard Johnson Company operates the Red Coach Grills (the first one opened in Massachusetts in 1935) and the Ground Round restaurants (the first opened in 1969 in Norridge, Illinois). In order to increase revenues, the company developed a policy of building new restaurants and motor lodges near the highway interchanges wherever possible. By 1977, the company had 850 Orange Roofs, 110 Ground Rounds, 35 Red Coach Grills, and 525 Motor Lodges.

In 1973-1974, a nationwide oil shortage caused the American public to modify traditional driving habits. Since the Orange Roofs and Motor Lodges were directly dependent on a travelling America, the company's revenues fell sharply. As a result, the company has become more cautious about where and how it makes new investments.

This case was prepared by James W. Nolan, Braintree (Massachusetts) High School; William Rousseau, Weeks Junior High School (Newton, Massachusetts); and Richard Streeter, Cohasset (Massachusetts) High School under the supervision of the 1978 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for class discussion rather than to illustrate either effective handling or ineffective handling of a particular situation.

While affected by the energy crisis, the Red Coach Grills nevertheless continued to be a reliable source of income. Patterned after the famous New England inns of the American colonial era, the Red Coach offers its customers a varied menu of fine food and wine and seeks to treat each patron--whether traveller or local resident--with deference and respect.

A NEW IDEA

The Senior Group Vice President (Restaurants) believed that there would be more income from the already successful Red Coach Grill in Braintree, Massachusetts, by building a new cocktail lounge and using the former lounge to increase the dining area. Liquor sales have always meant substantial profit in the restaurant industry. He also saw the need to attract a new clientele: older than those who patronize the Ground Round, but younger than the Red Coach's established, regular customer.

A PROPOSAL

The Vice President (Restaurants) discussed this idea with others in his office who thought it had promise. He called the President and Chairman of the Board in his New York City office:

Vice President: "Let's build a disco-type cocktail lounge which will attract young adults--about mid-twenties--but will not drive away our already existing dining room customers. We want to attract people with money, who have jobs and an established income, who will spend money on cocktails and who will behave themselves and cause no trouble. We can do this by building an attractive and inviting cocktail lounge at the Red Coach, charging slightly more for drinks. We can attract customers by hiring a disco band. I figure the cost for all this to be in the area of $350,000."

President: "You're asking me to spend a substantial sum of money on a GAMBLE! You know that is not normal Howard Johnson's policy or practice. Furthermore, suppose this idea does not work? What could happen to Red Coach? How would an unfortunate incident affect the image of Howard Johnson's?

The President did not approve of the idea.

REQUIREMENT: Place yourself in the President's chair.

1. Why would you also not authorize the cocktail lounge?

   What were the underlying assumptions which led Howard Johnson's to reject the proposal?

2. What do you think the Vice President might have said to you in response to your objections?

FURTHER DEVELOPMENTS

A year passed. The Vice President continued to see long lines at nearby restaurants with large cocktail lounges. He decided once again to call the President in New York.

Vice President: "Our competition has been doing very well since we last spoke about the lounge at the Red Coach. The cost now, though, would be in the area of $550,000. But I want to go ahead with it."

President: "That's half a million dollars! We could practically build a new restaurant for that amount. Why do we have to spend that much on an existing site which is doing well for us? We still have no history for this sort of facility in the company. And no experience with it. We have no certainty it will work."

Vice President: "I'm sure this is going to work. Let's <u>try</u> it."

President: "OK. Go ahead."

- * -

REQUIREMENT

1. Why did the President change his mind?
2. What were the Vice President's risks in presenting his idea a second time?
3. If the idea succeeded, what advantages would there be to the Red Coach?
4. List the social, economic, and political factors that had to be considered before the lounge could open its doors.

TEACHER'S NOTE

TITLE: Howard Johnson's Hustles On

Grade Level(s): 9-12 READING LEVEL: Fry 9th Grade

I. OVERVIEW

This case presents the different points-of-view of two corporate officials with respect to a single business decision. Specifically, a vice president proposes the radically new idea of a disco cocktail lounge at a conservative restaurant to the company president for his approval. The decision must be made on the basis of unproven assumptions and corporate philosophy and can provide the basis for a student discussion of business and economic concepts without reliance on many figures and data.

IA. EPILOGUE

The company did open the disco lounge in 1977 and called it "Lightfoot's." It was an immediate success. The Red Coach/ Lightfoot's complex almost doubled sales to $50,000 a week. By the summer of 1978, six more Lightfoot's had been planned and all are to open within the next year (1979).

Note: the teacher can include the above epilogue in the case or give this information to the students after the case discussion has ended.

II. CASE GOALS

A. COGNITIVE BEHAVIORAL OBJECTIVES

1. Identify terms listed on last page of case.

2. Understand the role of corporate philosophy in decision-making.

3. Understand the relationship between national considerations and local business.

B. VALUE JUDGEMENTS

1. To recognize the business point-of-view of profit, market targets, and image.

2. To recognize and appreciate opinions from the different points-of-view of the seperate corporate officials.

III. PREPARATION PRIOR TO DISTRIBUTION OF CASE TO STUDENTS

A. TEACHER PREPARATION

1. READINGS: None specifically needed

2. VISUALS

B. STUDENT PREPARATION

q. BEFORE READING THE CASE: be sure students understand the concept of diversification

2. BEFORE DISCUSSING THE CASE IN CLASS: list and compare different kinds of restaurants and entertainment businesses in the community.

3. AFTER THE DAY OF DISCUSSION: share epilogue; investigate and suggest possibilities for additonal restaurants and entertainment businesses in the community.

IV. CASE IMPLEMENTATION SUGGESTIONS

A. QUESTIONS FOR DISCUSSION: listed within case

B. ACTIVITIES FOR STUDENTS: listed within case

V. RESOURCES

A. REFERENCES: Howard Johnson's Annual Reports

B. VISUAL AIDS: "Economics and the American Dream" Newsweek Sound Film Strip

QUESTIONS FOR FURTHER DISCUSSION

1. Why would the Vice President want to attract a type of customer established in a job and having a steady income?

2. Why would the lounge deliberately charge slightly more for drinks than a comparable facility?

3. How had the energy crisis of 1973-1974 affected the Howard Johnson Company? What courses of action were available to the company? Why did its leaders choose as they did?

4. Look at the eating places in your community:

   a). Why are they located where they are?

   b). Do they try to serve different types of customer wants?

   c). Do they seem to have customers of different age groups?

   d). What kinds of restrictions are placed on these establishments?

TERMS TO KNOW

market	competition	image	prototype	existing propertie
profit	risk	franchise	capital	profit margins
asset liquidy	licensee	clientele		urban
corporate philosophy				

OLYMPIC OCCUPANCY

Background

The lodging industry has been one of the last segments of the business community to feel the touch of mechanization. Over the years, there have been several attempts to use the computer to better satisfy the needs of the traveling public and the hotel industry. Computer-based reservation systems have made significant progress, but generally these systems act independently of other hotel operating systems.

In 1968, Holiday Inns began a pioneering effort to design and implement a computer-based information system at its larger properties. The scope of the "Innkeeper Information System" was much broader and much more inclusive than prior attempts by the Hilton chain and other hotels. In September 1969, the Holiday system was installed at the Rivermont Holiday Inn in Memphis, Tennessee. The success of this project caused several service organizations to turn their attention to developing hotel information systems.

Case: Olympic Occupancy

In 1975, the Olympic Committee chose Lake Placid as the site of the 1980 Winter Olympics. The Lake Placid, New York, area could foresee increased revenue from the tourist trade. There might also be industrial growth due to the construction of the Olympic Village, since the Village would provide additional housing in the area after the Games.

One of the industries that predicted significant growth was the lodging industry. The following is a memo sent from Mr. A.O.Wright, Regional Supervisor of WSW Hotels, to Mr. Peter Smith, Director of Data Processing, WSW Hotels.

This case was prepared by Allen Smith, Dedham (Massachusetts) Public Schools; Mary White, Wellesley (Massachusetts) Public Schools; and Mary E. Wright, Milton (Massachusetts) Public Schools; under the supervision of the 1978 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for classroom discussion rather than to illustrate either effective or non-effective handling of a particular situation.

Memo: Contact Brad White, Manager, Sherwood Inn
North Isling, New York

RE: Feasibility Study of Converting Their Manual Registration Reservation System to Automation

After an extensive study, Peter Smith present the following report:

SHERWOOD INN HOTEL COMPUTER SYSTEM

FEASIBILITY STUDY

July 6, 1976

I. Current Situation:

The Sherwood Inn currently uses conventional methods to process advanced reservations which are completely manual. Clerks compose statistical reports on quarterly, monthly, and biweekly inventory of rooms and projected occupancy. The procedures for in-house guest accounting and night auditing are accomplished with conventional posting machines.

Operating expenses in the peak months of occupancy have been increased due to the hiring of part-time folio typists. The folios are then passed onto the filing department where they are filed with the advanced reservation folio. A conventional paper file system is used. The system of recording daily occupancy statistics by the night clerk and the posting activities that are carried out by the night auditors and front office cashiers is inefficient.

The Sherwood Inn, a hotel of 900 rooms and over 650 employees, projects its 1980 occupancy level at 80% with six months of the year to exceed 95%. Total 1976 revenue for the hotel is budgeted at $27,016,000 with $14,109,000 of this total resulting from room reve[illegible]. The average room rate at the hotel is $37.20.

The hotel's desire to strengthen operating and financial controls, improve guest service and internal communications, and to reduce operating costs led to a feasibility study for a hotel computer system.

II. System Description:

Reservations

Individual guest reservations may be entered into the computer system up to a year in advance, with a maximum stay of 28 days. Group or conventional reservations may be entered through the year 1999. There are 12 different room types with a reservation record for an individual traveler containing the following data:

Arrival Date	Confirmation Required
Room Type	Arrival Time or Flight
# Days Stay	Guaranteed Deposit Amount
Guest Name	Special Services
Guest Firm	Phone NUmber
Guest Mailing Address	Travel Bureau
# in Party	Caller
	Caller or Travel Bureau Address

Reservations, entered or denied by the reservation clerk, are based on room availability provided by the computer at the time of request.

Reservations for members of a group or convention may be handled the same way as an individual guest reservation, except the group or convention code name is entered so that the reservation will always be associated with the proper group or convention.

All rservations can be modified or cancelled by the operator. At anytime a reservation may be found in the system's memory.

Confirmations of reservations, cancellations, or changes in reservations may also be requested. Data for preparing confirmation is accumulated in the computer memory and can be printed periodically.

All reservations serve to update room inventories which are maintained by room type and date. Displays or reports of rooms sold or rooms available by type and date area available at any time. In addition, group allotments of rooms may be compared to actual group reservations.

Other functions normally performed by the reservation staff include blocking rooms when a specific room is requested by a guest and the posting of advanced deposits against a reservation record.

Registration

Guests may be pre-registered for any future date. Normally, a printout of Pre-Registration Forms, Expected Arrivals, and Special Services Reports will be done the night before arrival. At check-in the information contained on the Registration Form is verified by the guest when he signs the form.

The Front Desk Clerk checks the guest into a room from the computer's display of available cleaned rooms of the type requested by the guest. Once this has been done, the guest is now part of the "in-house" file stored in the computer. Similar procedures exist to register guests who have not pre-registered and for groups.

At any time, the Front Desk Clerk can display a registration progress which will compare expected versus actual arrivals, expected versus actual departures, and rooms available for walk-ins. Reports showing departures are either by room number or alphabetically by guests names.

Other reports available through the system include deposits, non-arrivals, and daily room revenue. The daily room revenue is a complete breakdown of revenue by room showing all adjacent rooms and providing operating statistics such as average rate, percent occupany, etc.

Registration of groups is enhanced by printing envelopes for keys and baggage labels. All group members may also be checked-in the hotel with a single transaction providing they have been pre-registered into a room in advance.

III. Economics:

Project start-up costs are estimated to be ¢68,000 of which $55,000 will be out-of-pocket costs and $13,000 will be allocated expenses. In addition, the installation of the proposed system will allow the hotel to sell NCR accounting equipment which will no longer be required. The estimated sales value of this equipment is $41,500, which will reduce project start-up costs to a net expense of $26,500. A breakdown of the project start-up costs is as follows:

Item of Expense	Amount
Site Preparation	$ 30,000
Miscellaneous Equipment Purchase	8,000
Home Office Systems Support	8,000
Vendor Living Expenses	2,000
Staff Training	5,000
System Supervisor Hiring/Training	5,000
Travel, Forms, Art Work, Renovations	10,000
Start-up Costs	$ 68,000
Less Sale of NCR Equipment	41,500
Net Start-up Costs	$ 26,500

California Computer Company (CCC) has agreed to a purchase price of $378,000 for the system. This price includes all shipping charges and taxes. Installation of the computer system will influence other items of operating expenses. We estimate the operating costs of these changes to be $4,965 per month in 1976 and have provided a 10% cost increase in our cash flow analysis for the years beyond 1976. A breakdown of these monthly expenses in 1976 are as follows:

Item of Expense	1976 Monthly Expense
Salaries of 2 System Supervisors	$ 2,000
System Supervisor Salary Benefits	340
Equipment Maintenance	1,000
Incremental Forms, Power, Insurance Costs	1,750
Elimination of Existing Teletype	125
	$ 4,965

Hotel staff reductions of 25 employees are forecasted in the areas of reservations, registrations, guest information, and accounting activities. The projected staff reductions will occur in the following areas:

Area	Current Staff Without Computer	Proposed Staff With Computer	Projected Staff Reductions
Reservations	9.5	6.0	3.5
Registrations	20.0	19.0	1.0
Guest Information	6.0	...	6.0
Switchboard	19.5	16.5	3.0
Front Office Cashier	12.5	9.5	3.0
Night Auditing	9.0	4.0	5.0
Revenue Control	5.0	4.0	1.0
City Ledger	7.5	5.0	2.5

Based on the 1976 salary rates and benefits costs, the payroll savings resulting from the elimination of 25 employees are projected at $175,143. The next table recaps the positions to be eliminated along with the weekly and annual salary rates.

Position	Number of Employees	Weekly Salary	Annual Cost
Reservations			
Statistical Clerk	1.00	$170	$8,840
Part-time Statistical Clerk	.25	135	1,755
Folio Typist	1.25	140	9,100
File Clerk	1.00	125	6,500
Registration Night Clerk	1.00	160	8,320
Guest Information			
Circuit Operators	6.00	130	40,560
Switchboard			
Operators	3.00	135	21,060
Front Office Cashiers	3.00	155	24,180
Revenue Control			
Restaurant Controllers	1.00	150	7,800
Night Auditors	5.00	165	42,900
City Ledger Clerks	2.50	160	20,800
	25.00		$ 149,695
Payroll Benefits (17%)			25,448
Total Payroll Savings			$ 175,143

IV. Implementation Schedule:

The CCC will be responsible for all activities leading to start-up. This will include equipment assembly and testing, shipment, installation at the hotel, and training of the staff. The hotel will be responsible for preparation of the site for this equipment.

A member of its Systems and Data Processing Unit of WSW Hotels will act as Project Coordinator during the first year of operation. This staff member has two years of experience with the recommended system and will be responsible for overall communication with CCC.

The Hotel's controller and room manager have been actively involved in this project to date and already are trained in the use of the CCC system.

V. Summary:

A hotel computer system at the Sherwood Inn in New York might be acquired from CCC at a purchase price of $378,000.

The recommended system will use centralized data files and a minicomputer central processor to store, sort, and retrieve advanced registrations. Terminals and line printers will be located in the reservation office, at the front desk, the cashier's office, the housekeeping department, and the food and beverage department. This will give better customer service, immediate information on posting and billing, and accuracy of data. Use of this system will allow all departments to use one central information file leading to the elimination of redundant files, thus resulting in higher revenues.

Project implementation costs are estimated at $68,000. Staff reductions of 25 employees and the sale of obsolete accounting equipment will result in an average net savings of $49,200 per year over the 60 month term.

Together with the hotel staff, we recommend that every effort be made to install the system prior to the peak winter business months in 1978. Our suggested implementation schedule provides for the system to be installed in October 1978 and operational in November 1978. This schedule will insure a smooth operating system prior to peak occupancy which occurs in late December.

TEACHER'S NOTE

TITLE: Olympic Occupancy

GRADE LEVEL: 11-12

READING LEVEL: 12

I. OVERVIEW

The student will play the role of a large chain hotel executive. The student must make the decision whether to convert a manual reservation system to a computerized reservation system in the chain's hotel located at the site of the 1980 Olympics.

II. GENERAL OBJECTIVE

To judge the advantages versus the disadvantages of installing a computerized reservation system in a large tourist hotel.

III. SPECIFIC OBJECTIVES

To verbalize the meaning of certain hotel and computer terms.

To differentiate between a computerized and a manually operated hotel reservation system.

To list possible problems involved in the implementation of a computerized reservation service.

To discuss the possible personnel changes directly related to a new method of taking reservations.

To recognize other areas of the hotel industry that are adaptable to automation. (i.e. inventory control)

To analyze the relationship between reservations and occupancy to profitability.

IV. TEACHER PREPARATION

Readings:

_____ " 'No vacancy' means big profit for U.S. hotels" Business Week (July 17, 1978) p.70-71.

Scollin, G. Douglas. "The Lodging Industry's New Dream Machine" Perspective (Spring/Summer 1978) p.31-33.

Materials:

Examples of a hotel folio, chart of reservation blocking board and reservation forms should be obtained from a hotel in the community.

V. STUDENT PREPARATION

Readings:

Same as teacher readings

Assignment:

After reading the feasibility study, the student will prepare a a position paper as to whether or not the computerized system should be installed by management. In the role of a hotel executive, he/she must present a strong case enumerating the pros or cons related to this installation.

VI. VOCABULARY

Teacher Defined	Student Defined	
Conventional posting machine	Computer system	Vendor
Manual control log	Feasibility	Controller
Data Processing	Conventional reservation	Tentative
Project Coordinator	Confirmations	Redundant
Cost Justification	Cancellations	Revenues
Terminals	Room Inventories	Occupancy
Cash Flow Analysis	In-House File	Factored
Batch processing	Implementation	Computation

VII. Suggested questions

1. What are the advantages and disadvantages of a manually operated system of reservations?
2. What do you think might be the effects on employment relative to the new system?
3. If you were a reservationist, how would you react to being laid off as a result of the installation of a computerized system?
4. How does a computerized system affect one of the primary concerns of the hotel industry? (i.e. service)
5. What factors in the computer system could possibly increase occupancy?
6. What is the relationship of increased or decreased occupancy to revenue?
7. How might the reservation system operations be significantly improved through the implementation of a data system?
8. If the manual system of reservations is presently inefficient, would the computerized system based on the present system be efficient? Why? Why not?

"UP, UP, AND AWAY--THE SHAWMUT WAY"

"WE HAVE A PROBLEM"

PART I - COMPETITION

Introduction

In May 1972 Consumer Savings Bank of Worcester, Massachusetts, started to offer NOW (Negotiated Order of Withdrawl) accounts to its customers. (Note: A NOW account is simply a checking account that pays interest.) By the end of 1972 many of the major savings banks in Massachusetts had also announced or planned to offer NOW's to their customers. Thus, in early 1973, the Shawmut Corporation, an organization of eight commercial banks across Massachusetts, was faced with a problem of competition.

(1) Savings banks could now offer NOW checking accounts (they were not allowed to offer checking accounts before 1972). This doubled the number of banks competing for checking accounts.

(2) Savings banks were offering a better product--interest on checking. The Shawmut Banks, being commercial banks, could not offer interest on checking. (Note: They were given permission to offer interest on checking on January 1, 1974, but no one knew that this would happen in 1973.)

Shawmut decided to offer a unique product--Shawmut Way Account--following a product marketing plan. (see Figure I)

This case was prepared by Saul Adamsky and Edwina Marie Macchia, both of the Cambridge (Massachusetts) Public Schools and Olinto Paoletti, R.C.Mahar Regional High School, Orange, Massachusetts, under the supervision of the 1978 NU/FEI/BHELP Summer Social Studies Workshop faculty as a basis for classroom discussion rather than to illustrate either effective or ineffective handling of a particular situation.

FIGURE I: Product Marketing Plan for the Shawmut Way Account

CONCEPT TEST:
1. Measure appeals
2. Measure type of person who might use the service
3. Decide features to be in the package

↓

PRICING RESEARCH:
1. Measure cost of package
2. Measure of the profit

↓

NAME TESTING AND SELECTION:
1. Measure what we should call this package
2. Measure Unified Identofication

↓

ADVERTISING RESEARCH:
1. Stress actual cost
2. Stress number of services
3. Stress Value

↓

PRODUCT INTRODUCED: September 1973

↓

SALES EVALUATION:
1. See what branch sold more or less of the Shawmut Way Accounts

↓

CONSUMER FOLLOW-UP:
1. Measure customers satisfaction and why they signed up for the Shawmut Way
2. Measure type of people who did sign-up and those who did not.

- * -

FIGURE II: SHAWMUT WAY DDA

Introduced September 1973

Cost: $3 per month

Services:

(1) Free checking
(2) Free personalized checks
(3) Free money orders
(4) Free travelers checks
(5) Free cashiers checks
(6) Free safe deposit vox
(7) Reduced rate on loans
(8) Overdraft protection (no "bounced checks")
(9) Cash bonus to start savings account
(10) Simplified statement
(11) Check cashing card good at 120 branches across state

MARKETING PLAN EXPLANATION:

Concept Test: The data was gathered from 300 telephone interviews, 100 Shawmut customers and 200 customers of other banks.

	Do You Like Idea?	Shawmut Customers	Will You Sign Up?	Customers of Other Banks
33%	Excellent Idea	12%	Yes	5%
33%	Good Idea	28%	Maybe	14%
34%	Fair to	24%	Maybe Not	26%
	Poor Idea	36%	No	55%
100%		100%		100%

Additional Data: People under the age of 45 were more interested in the Shawmut package than were older people.

Master Charge was rejected by a good number of the tested population. Therefore, we did not offer this service in this package.

People were very interested in the overdraft protection concept.

Pricing Research: What should we charge for the Shawmut Way. We had to consider this carefully since other banks were offering "free checking." However, we found that the customer would not object to paying a reasonable service charge for the Shawmut Way Account.

Name Testing and Selection: We were concerned about attractiveness and identification. Since the customers banked with one of the branches, often they did not realize that they were part of the Shawmut Banking System. It was clear that the proper selection of a name would also make the customer aware of the Shawmut Banking System. This would bring a unified corporate name to the public.

Advertising Research: We had determined that many banks offered "free checking accounts" when in fact they charged for the checks. We felt that the public would be willing to pay a straight $3.00 a month charge for all of the services that we had packaged in the Shawmut Way Account if they received "value" in return.

Product Introduced: September 1973
See Figure II for product description

Sales Evaluation: Shoppers were hired to go into the various branches to report on the individual approaches to selling the Shawmut Way Account. (see Part II)

Consumer Follow-Up: After the entire procedure was put into action, we went back to the customer to seek answers to the following questions.

1. Was the customer satisfied?
2. Why did the customer sign-up?
3. Why did the customer not sign-up?

Additional Information Gained from the Customer Follow-Up:

98 percent of our customers were aware of the Shawmut Way Account.

84 percent had heard about the Account at their branch bank.

Those who signed up with the Account were very satisfied.

Due to this satisfaction, customers brought more of their banking needs to the Shawmut Banks.

33 percent of the non-Shawmut Way customers did not associate the word Shawmut with their bank.

88 percent of Shawmut Way customers did associate the word Shawmut with their bank.

No evidence that competitive offerings from other banks were a significant problem.

PART II - COMMUNICATION

Introduction: When the Shawmut Way Account was offered to the public in September 1973, a Vice President of the Shawmut Corporation decided to see how the banks in the system were selling this package. Since she drove past one of the branches on her way home, she decided to stop and try to open an account. The following is what took place.

ME (Vice President): I've just moved from New York and would like to open a checking account (obviously new in town--good prospect for many services).

BM (Branch Manager): (went on to explain $100 minimum balance account in great detail)

ME: I'll need a safe deposit box, too. Do you have any? (Safe deposit is included in the package--should have been a trigger).

BM: (assured me that they were available and quoted prices) Many more questions, clues, and hints later.

ME: What about those blue signs (Shawmut Way lobby displays) over there? Is that anything I should know about?

BM: Oh that! You wouldn't be interested in that. It costs $3.00 a month and around here people aren't used to paying for their checking accounts.

ME: But I pay more than that now. It seems like it might be a good deal. Could you tell me more about it?

BM: Here's a brochure. It explains everything.

ME: Oh, it includes discounts on loans, that's good. We need a new car and will be looking for an auto loan soon.

BM: Sorry, it doesn't apply to car loans. (Not true, and the brochure even spells out the value, especially for car loans.)

ME: And traveler's checks free too! My husband travels a lot on business and he could really save.

BM: Sorry, can't use them for business. (Not true.)

ME: Well, it still sounds okay to me. Mind if I take this home to look over and come back tomorrow to sign-up?

BM: Okay, if you really want to.

The following day at work, she went to see the head of the marketing department. She showed the marketing head the transcript of her experience.

EM: What the heck are you people trying to do to the bank?
We will lose all of our customers if we keep this up?

- * -

What is your answer as head of marketing?

What is the problem?

What is the solution?

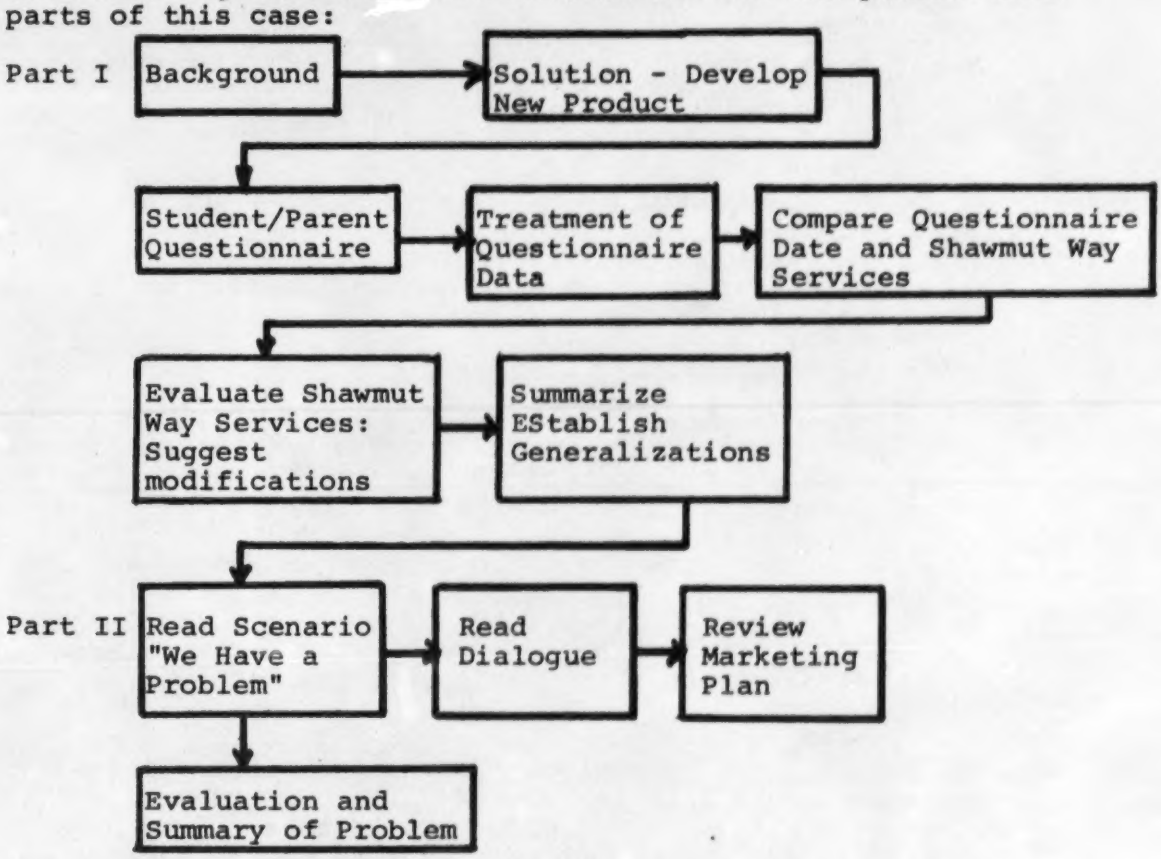
TEACHER'S NOTE

III. Presentation

This case is in two parts. Part I focuses on the examination of banking services and serves as a prerequisite for Part II. It can also be used independently.

Part II continues the case with an examination of a marketing communication problem.

The following flow chart illustrates how one can present both parts of this case:



IV. Questions/Activities for Students (Part I)

A. It appears that Shawmut has a problem of competition. What can they do? (Select one or more or add others.)

1. Give up and leave market.
2. Ignore NOW's (dodo bird approach).
3. Offer a NOW (this was illegal).
4. Develop a new product.

B. Steps in developing a product.

1. Who - research
2. What - research, cost
3. When - timing
4. Where - branch implementation
5. How - advertising

C. Review Marketing Plan in detail.

D. Use questionnaire to involve student interest.

E. Evaluate Shawmut Way product (Figure II).

V. Questions/Activities for the Student (Part II)

A. It appears that the Shawmut Bank has a communication problem. What is the nature of the problem? Select one or more of the possibilities listed below. You may add others.

Inadequate data
Poor timing
The basic design is imperfect.
Communications between personnel at all levels of the company are ineffective or non-existent.

Best answer - not enough data.

B. Solution - first step is to find out how widespread is the problem; that is the purpose of sales evaluation. Shawmut studies showed that almost 80% of sales personnel had a good or excellent knowledge of the product.

C. Solution - next step is to re-educate everyone; e.g., develop new training manual, group discussions, etc.

D. EMPHASIZE: The success of a product, even in a large corporation, depends on each individual selling/servicing the product.

E. Assume you have been given the responsibility to train personnel in marketing a banking services plan. Would you establish an incentive plan? If you did, what incentives would you provide? Why? (Shawmut offered a $2 cash bonus for each new sale.)

PARENT/STUDENT QUESTIONNAIRE

		YES	NO
1.	Do you have a checking or a NOW account?	___	___
2.	Does the bank charge you for a checking or a NOW account?	___	___
3.	Do you have a savings account?	___	___
4.	Do you have a safety deposit box?	___	___
5.	Does your bank offer overdraft protection? (protection from "bounced checks")	___	___
6.	Does your bank offer personal loans?	___	___
7.	Have you borrowed money for a new home from your bank?	___	___
8.	Does your bank offer money orders/travelers checks?	___	___
9.	Have you had trouble cashing a check lately?	___	___
10.	How many banks do you use? (include credit unions) _____		
11.	Are there any services you would want your bank to have that they do not have at the present time? _____		
12.	If all services that you wanted were available at one bank, would you bring all of your business to them?	___	___